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SUBJECT: MIXED SIGNALS AGAIN FROM THE GERMAN
LABOR MARKET

¶1. SUMMARY. There were once again mixed signals from the German labor market in July. According to the Federal Employment Agency, Germany's non-seasonally adjusted unemployment increased by 52,000 from June to July (with the rate increasing by 0.1 percentage point to 8.2 percent), less than most economists had expected. Seasonally adjusted unemployment, which reflects the overall trend in the labor market, decreased unexpectedly by 6,000 to 3.545 million. In recent months, economists have been regularly off the mark on their predictions on German jobless data, but there is general consensus that job losses are likely to accelerate in the coming months and unemployment to rise over 4.5 million in 2010. END SUMMARY.

¶2. German unemployment increased less than expected in July, raising (maybe unduly) hopes that the recession was easing. Two months before the federal elections in September, the politically important seasonally non-adjusted unemployment figure (the one that makes the headline news) rose by 52,000 from June to 3.45 million, for an unemployment rate of 8.2 percent. However, the month-to-month increase was only about half of what most economists had predicted for July. Influenced by Germany's government-subsidized "short shift" work program and statistical changes, seasonally adjusted unemployment unexpectedly declined by 6,000 during the same period. The month-to-month jobless decline was well below the 45,000 increase forecasted by many economists.

¶3. The BA warned, however, that the improved jobless figures were also attributable to recent changes in the compilation of unemployment statistics. Under the new methodology, people seeking employment through private placement agencies or receiving retraining within companies were no longer counted as unemployed. Without the changes, the number of jobless would have been around 30,000 higher in July, the BA said. Other measures, such as the major use of the "short shift" work program, have helped to prevent massive job cuts in Germany. Note: Overall, unemployment has risen by only 300,000 since the global financial and economic crisis intensified with the collapse of U.S. investment bank Lehman Brothers last September.

¶4. Employment Agency Chief Frank-Juergen Weise noted in his press conference that the effect of the recession on the German labor market was still "moderate" so far. In addition to short shift regulations, demographic factors such as

the decline of the workforce by 152,000 during the year have played a role. Despite the unexpectedly favorable labor market data in June and July, Weise warned against a premature "euphoria." He could not rule out that unemployment would reach 4 million by the end of the year, some 800,000 more than at the end of 2008. Economists also warned that changes in the labor market traditionally lag other macro-economic indicators which recently showed first signs that the worst of the recession might be over. In a press interview, Eckart Tuchfeld, an economist at Commerzbank, said he expected unemployment to peak in the coming year. "When the subsidies (under the short-time work) run out, unemployment is likely to jump," he said.

15. The sharp deterioration of the German economy has also slowed employment growth and reversed recent year gains. German employment was at 40.2 million in June 2009, about 92,000 less than a year ago. Germany's export-oriented economy (notably automobile and machine tool industries) is increasingly affected by waning global demand for manufactured products.

16. More detailed statistical information on Germany is available at the Federal Employment Agency's website:

<http://www.pub.arbeitsagentur.de/hst/services/statistik>

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